GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:3947
ANSWERED ON:09.12.2016
Investment in Mutual Funds
Vellaigounder Shri Elumalai

Will the Minister of FINANCE be pleased to state:

(a) whether KYC based on PAN or Aadhaar is no more sufficient for investment in mutual funds, stock and commodities markets and if so, the details thereof;

(b) whether the investors have to provide extra information which is not even required to get PAN and Aadhaar card and if so, the details thereof; and

(c) whether central KYC rules is likely to affect the investors and the e-KYC process and if so, the details thereof?

Answer

The Minister of State for Finance (Shri Arjun Ram Meghwal)

(a) SEBI has made Permanent Account Number (PAN) mandatory for all participants in the securities market with effect from July 02, 2007. Further, SEBI vide circular dated July 21, 2016 operationalized the Central KYC Records Registry (CKYCR), the requirement for PAN continues to be mandatory for completing the KYC process for investment in mutual funds, stocks and commodity derivatives market.
As per Prevention of Money Laundering (Maintenance of Records) Rules, 2005 and common KYC template for individuals finalised by Central Registry of Securitisation Asset Reconstruction and Security Interest of India (CERSAI), while Aadhaar is considered as officially valid document for both proof of identity and proof of address, PAN is considered as officially valid document only for proof of identity.

(b) The additional fields required in common KYC template for individuals prescribed by CERSAI for CKYCR as compared to KYC requirements for individuals earlier prescribed by SEBI vide its circular dated December 26, 2013 are placed at Annexure-A.

(c) In terms of SEBI circular dated January 22, 2016, Aadhaar based e-KYC can be carried out by providing Aadhaar number (and PAN, where applicable). In this process intermediaries can perform verification of the client with Unique Identification Authority of India (UIDAI) through biometric authentication (fingerprint or iris scanning) and physical signature of the investor is not required. One Time password (OTP) process is also enabled for mutual fund investors for investment amount not exceeding INR 50,000 per financial year per Mutual Fund.
The above Aadhaar based e-KYC process cannot be carried out for investors after Central KYC rules have come into force from July 2016 for all financial market intermediaries. Central KYC rules, inter-alia, requires mandatory capture of physical signature of the investors for KYC which is not required in e-KYC process.
The purpose of establishing the Central KYC Records Registry (CKYCR) by the Government is to allow access to KYC data in a centralized and cost effective manner across banking, insurance, securities markets etc. Once the CKYCR is fully operational, the regulated entities would find it profitable to access the data directly. CKYCR would thereby have the effect of enhancing customer convenience and the ease of doing business by encouraging low cost access by regulated entities to CKYCR data.